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EXPLORATION

APR 27 1954

MEMORANDUM FOR: Deputy Director/ Intelligence

SUBJECT : New York Times item, "Bargain" Soviet Oil Costly, Cairo Finds, dated 14 April 1954.

1. The following comments have been prepared by ORR in reply to your request of 19 April 1954 for information on the subject item.

A. Background. On February 21, 1954, the Cairo radio announced that a barter agreement was to be signed on February 22, 1954, between the USSR, Rumania, and Egypt, for the following quantities of petroleum products to be shipped from the countries indicated:

			(metric Tons)
<u>From Rumania</u>	<u>From the USSR</u>		<u>Total</u>
Kerosene	30,000	200,000	230,000
Gasoline	30,000	25,000	55,000
Solar Oil	30,000	25,000	55,000
Hazut	10,000	-	10,000
Total	100,000	250,000	350,000

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These data were later confirmed by State Cable, [redacted] No copy of the text or annexes of the barter agreement is available in the appropriate offices of ORR, OCI, or OIR, State Department.

B. Facts. On March 22, 1954, the Italian tanker "Recco" sailed from Spezia, Italy, bound for Constanza. This tanker had been laid up since June 19, 1953. On March 25, the Recco called and departed from Messina, Italy. On March 29, she called at Istanbul. On April 3, 1954, she passed through the Bosphorus bound for Alexandria.

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[redacted] reported that her cargo when southbound through the Bosphorus was "fuel oil". According to the State telegram [redacted] the "Recco" arrived in Alexandria on April 7, 1954. An Egyptian cooperative society, into whose tanks 4,000 tons of the cargo was supposed to be loaded, refused to accept it because the cargo was badly off color. The Socony Vacuum Oil Company also made a test of the cargo, and reported that the cargo tested in the range between kerosene and gas oil, and considered the product unmarketable as lighting kerosene because the product met neither the color or smoke test for lighting kerosene. On April 9, the Egyptian government ordered the tanker to proceed to Suez, where it arrived on April 12, and began to discharge the cargo into the tanks of the Egyptian government refinery

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there. The Socony representative is reported to have informed the Embassy that the Egyptian government will have to bear the costs of the cargo, since the kerosene "despite its bad quality is clearly within the specifications annexed to the Egyptian-Rumanian oil agreement". In the same telegram, the Embassy informed that their despatch [redacted] will cover this matter more fully. This despatch has not yet been received in the United States.

C. Comments. Several possible explanations of the above facts exist:

i. The possibility that the cargo loaded in Rumania was a good quality lighting kerosene, but that the cargo was contaminated en route, as a result of dirty tanks in the vessel. The vessel had been laid up for 9 months prior to this voyage, and therefore could not have been contaminated recently. In addition, it is standard practice to ascertain that the cargo tanks of a vessel are clean before loading a product such as lighting kerosene. If the tanks of the vessel had been dirty, the color and smoke characteristics of the kerosene would have been adversely affected. However, it would take an extraordinary amount of contamination to make a lighting kerosene perform in the "range between kerosene and gas oil", as reported by the Socony representative. It is of some interest to note that the local Egyptian press quotes government officials as saying that the color of the kerosene was due to contamination, and that the Italian-Egyptian shipping company which chartered the "Recco" is responsible. [redacted]

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[redacted] This would appear to be an attempt to shift the blame to the shipping company. This attempt is somewhat transparent, since the Egyptian officials do not claim that the cargo failed to meet specifications, in respects other than color.

ii. The possibility that the Navy telegram stating that the cargo was fuel oil is correct, and that the wrong tests were made in Egypt. This possibility is very remote. [redacted] has reported the cargoes of vessels incorrectly on occasions in the past. In addition, the cargo was tested by a responsible American oil company, who reported the cargo to be off-specification kerosene, and not fuel oil.

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iii. The possibility that the Egyptian negotiators of the Egyptian-Rumanian-Soviet barter agreement failed to insert rigid specifications for lighting kerosene in the specifications annexed to the agreement. If this were the case, the Rumanian export company would have acted within its rights in delivering a kerosene which met the specifications laid down in the agreement, whether or not the agreement called for lighting kerosene. The fact that the Socony representative states that the kerosene met the specifications in the agreement suggests that this is the most probable explanation.

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Again, the fact the Egyptian government accepted the cargo indicates that they recognized their responsibility in the matter. It is curious that the Egyptian negotiators should fail to insert rigid specifications in the agreement, since it is known that the Egyptian government is aware of Soviet specifications for lighting kerosene. Soviet specifications for lighting kerosene are comparable with those used by the international oil companies. There can be no doubt, from the evidence available that the cargo of the "Recce" would not pass Soviet specifications for lighting kerosene. It seems probable that the cargo consisted of a lower grade kerosene (tractor kerosene), which would perform in the manner indicated by the test results.

iv. A last possibility, which cannot be ruled out, is that the Rumanians simply loaded tractor kerosene, where the specifications called for lighting kerosene. The fact that the Socony representative stated that the kerosene met the specifications outlined in the agreement seems to rule this possibility out. If the wrong cargo was delivered, it seems probable that the Egyptian government would have refused to accept the cargo.

2. ORR is continuing to follow this matter, and will furnish you with further information as it develops. ORR does not consider it to be necessary to procure a sample of this cargo for analysis, since the cargo has already been analyzed by a responsible American company. It should be possible to obtain the results of this analysis through OO channels without difficulty.

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[REDACTED]

Acting Assistant Director
Research and Reports

O CH/E/RR
JGF:gg
23 April 1954

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